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News

## California's GO and General Fund Appropriation-Backed Debt Ratings Placed on Watch, Negative

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NEW YORK (Standard & Poor's CreditWire) Jan. 19, 2001-- Standard & Poor's today placed California's GO and general fund appropriation-backed debt ratings on CreditWatch with negative implications. The CreditWatch placement results from uncertainties surrounding the ability of the state to fashion a long-term solution to its power supply crisis and the ensuing financial effect. The possible necessity of continuing to purchase power on a long-term basis to avoid blackouts could substantially affect the state's currently ample general fund balance. While the state legislature's emergency appropriation on Jan. 17 of \$400 million of general fund money to buy power does not in itself jeopardize the state's double-'A' GO credit rating, the potential exists for substantially greater ongoing appropriations. Standard & Poor's believes there is currently no adequate funding source, absent rate hikes, other than the state to purchase enough power to avoid such blackouts. Southern California Edison (rated 'D'/'D') and Pacific Gas & Electric (rated 'D'/'D') have lost approximately \$2 billion per month since last summer.

Separately, the California Department of Water Resources' double-'A' revenue bond rating is affirmed and is not placed on CreditWatch. The department has contributed \$36 million of surplus operating revenues to purchase power, a level that does not affect the department's revenue bond rating (double-'A'/Stable). No further operating revenues are expected to be utilized.

The state's general fund balance has risen sharply higher than budgeted during the current fiscal year due to higher-than-forecasted economic growth. This surplus has given the state some latitude to spend general fund money on new items. Governor Gray Davis already proposed earlier this month setting aside \$1 billion of state surplus general fund money in the fiscal 2002 budget for energy purposes; so, in effect, the current appropriation of \$400 million only advances the funding schedule.

However, the state general fund appropriation has created a very limited breathing period to provide a long-term solution to the state's power crisis, which has led to rolling blackouts in the last two days. One solution proposed by Gov. Davis' office is blind bidding for long-term power supply contracts with the California Department of Water Resources as purchaser and wholesaler. Bidding may take place in a week or two but, given the potential for the imminent insolvency of Southern California Edison and Pacific Gas & Electric, the state's power crisis may persist. California's robust economy depends on a reliable supply of electricity. The failure to find a long-term cure to this energy crisis could put the state's long-term credit at risk, Standard & Poor's said. -- CreditWire

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